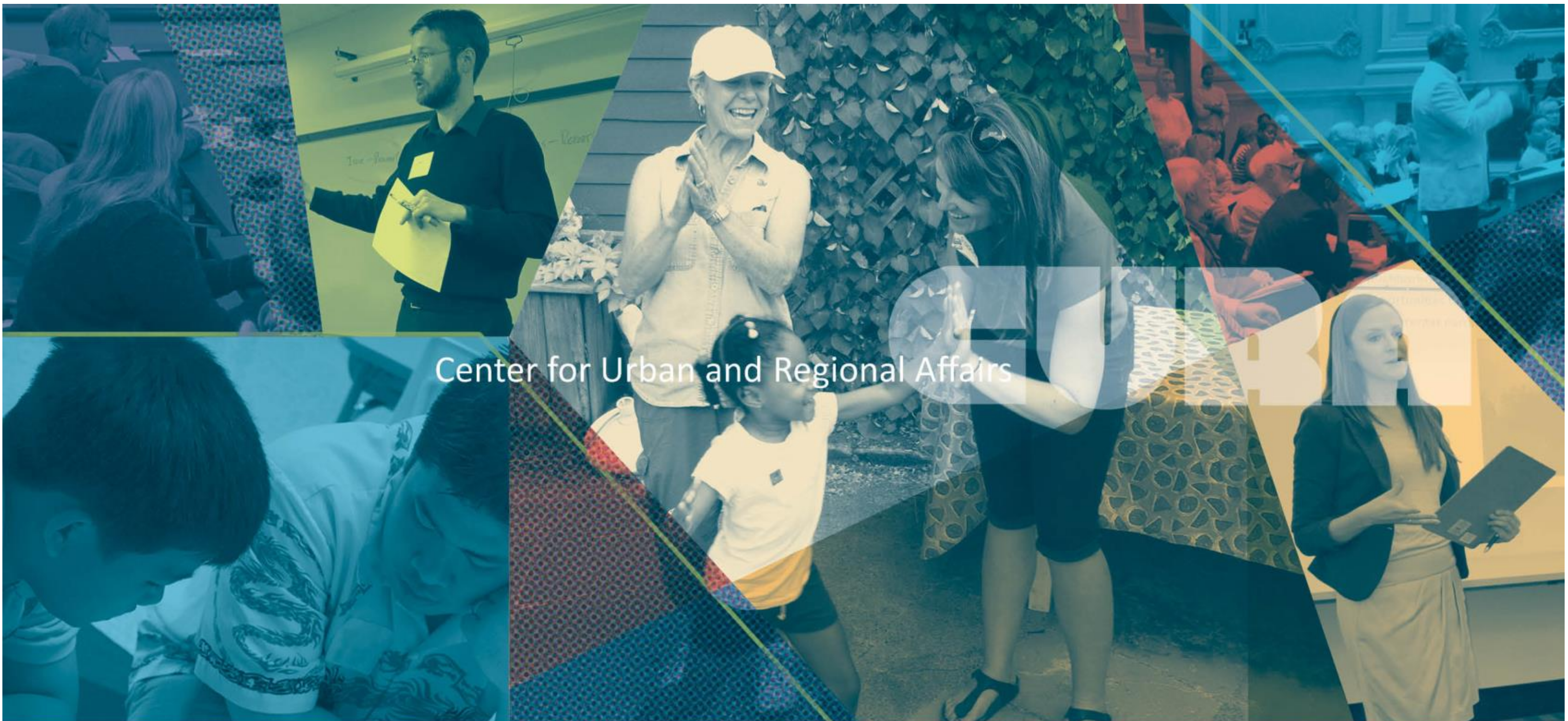

KRIS NELSON COMMUNITY-BASED RESEARCH PROGRAM

. . .a program of the Center for Urban and Regional Affairs (CURA)

Barriers to Sharia-Acceptable Microfinance Financing in the Twin Cities

Prepared in partnership with
New American Development Center

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2018

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Somali Mall located in Minneapolis, Minnesota
Photo Credit: Steph Travel Oops Blog

Executive Summary

The alternative finance movement for interest adverse Muslim-Somali individuals in the Twin Cities faces a critical moment in its history. As poverty rates of the Muslim-Somali community are on the rise in the Twin Cities, public skepticism of Islamic finance is growing and vested local and regional stakeholders are increasingly finding themselves in a complex system and all have varying definitions of the root causes of the issue.

This report provides an analytic summary of the current challenges within the Islamic finance movement in the Twin Cities. Methods of analysis include in-depth, semi-structured interviews with fourteen individuals representative of several key stakeholder groups: (1) community development organizations, (2) entrepreneurs, (3) Islamic financial scholars, (4) banks and other financial institutions, (5) city officials, and (6) major philanthropic foundations in the Twin Cities. Field notes from each interview were analyzed using an inductive coding technique to identify major themes and sub-themes.

Major barriers to implementing alternative financial products, such as interest-free, sharia acceptable loans include:

- Negative domestic media coverage of sharia-compliant finance and Islamophobic and xenophobic political rhetoric and action.
- Perceived lack of market demand.
- Inadequate financial literacy of clients.
- Limited understanding of other alternative lending models outside of the Murabaha.
- Different (and at times conflicting!) terminologies for products.
- Varying beliefs about the authenticity of the credit.
- Gap in knowledge between potential clients and community resources.
- Lack of workplace diversity.

The set of preliminary recommendations at the end of the report are aimed at cultivating a greater collaborative advantage amongst invested stakeholders and increasing New American Development Center's (NADC) effectiveness in the Twin Cities region to ultimately support interest-averse East African Somalis in Minnesota.

Glossary of Terms

Alternative Financing - Broad and encompassing term that refers to financing models that differ from the traditional capitalist model in the United States to include interest-free Islamic financing.

Halal - Arabic word meaning lawful or prohibited under Islamic Law (Islamic Council of Victoria). In the context of this report, it will refer to financing options that are permitted in Islam.

Interest-Adverse Populations - Individuals that cannot pay or charge interest for religious and/or cultural reasons. Most notably, this refers to Muslims but also can include some Jewish and Christian groups (Foster et al. 2002)

Murabaha - "a contract referring to a sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed to by all parties involved. The payment of the purchase price can be settled either on a deferred lump sum basis or on an instalment basis, and is specified in the agreement." (Zaid & Ibrahim, 2017)

Sharia - "Islamic law, originating from the *Qur'an* (the holy book of Islam), and its practices and explanations rendered by the prophet Muhammad *(peace be upon him)* and *ijtihad* of *ulamak* (personal effort by qualified Sharia scholars to determine the true ruling of the divine law on matters which revelations are not explicit). (Zaid & Ibrahim, 2017)

Riba - Translated from the Qu'ran as "interest on a debt or loan, or any risk-free return on capital." Also refers to "an increase, in a loan transaction or in exchange of a commodity, accrued to the owner (lender) without giving an equivalent counter value or recompensation in return to the other party. It covers interest both on commercial and consumer loans, and is prohibited according to the Sharia. (Zaid & Ibrahim, 2017)

Introduction

Nearly 74,000 Somalis, or one-third of the total Somali diaspora in the United States, live in Minnesota (Ibrahim, 2017). Though Minnesota is known for its strong refugee-relocation services, the integration process has not been without major barriers and challenges. Most notably, these include: cultural differences, English language acquisition, racism, and social and economic inequities (Darboe, 2003). The transnational Somali migrant group is one of the fastest growing immigrant population groups in Minnesota. More research is needed to discern how to best support Somalis as they integrate into Minnesota. To date, there is one existing case study (Golden et al., 2010) that explores barriers faced by Somalis while integrating economically into the Twin Cities. The case study, which surveyed 90 Somali business owners (experimental group) and 45 non-Somali business owners (control group) throughout the Twin Cities, found that Somali entrepreneurs face unique challenges because of the intersection of racial, religious, and ethnic identities. Furthermore, the case study uncovered the following:

- 98.9% of Somali entrepreneurs state that religious beliefs are extremely important when making business decisions (compared to the control group of 48.9%).
- 93% of Somali entrepreneurs felt uncomfortable borrowing with interest (compared to the control group of 26.6%).
- nearly 91% of Somali entrepreneurs (compared to 50.0%) cited that alternative financing that met their religious beliefs was a major barrier to expansion.

Nearly 99% of Somalis identify as Muslim and in Minnesota alone there are an estimated 150,000 Muslims, including both Somali and non-Somalis (Fannoun 2018).

The Islamic faith tradition has its own financial system that operates according to Islamic law, which is called sharia (Foster et al., 2002). Fannoun (2018) writes, **"Just like conventional financial systems, Islamic finance can incorporate banks, capital markets, fund managers, investment firms, and insurance companies as long as they adhere to certain Islamic principles, such as the prohibiting of *riba* (interest)."** This principle is reflective of the underlying Islamic financial principle that investments "should create social value and not merely wealth" (Haltom, 2014). The Islamic faith tradition and Islamic scholars do provide alternative forms and techniques of financing that work within the Islamic Principles to include interest-free financing (Fannoun 2018, Foster et al. 2002, and Haltom 2014). However, as Barba (2010) points out, **the expansion of sharia compliant financing opportunities for Muslim-Americans is "hurt by politics" and not, as commonly-believed, by regulatory barriers.**

The goal of this project is to explore and begin to address the institutional barriers that limit sharia acceptable financing practices in Minnesota. Reducing these barriers may increase opportunities for Somali-Minnesotans to nourish and grow strong businesses that would in turn create job opportunities for Somali-Minnesotans and, ultimately, assist in reducing poverty in the Somali community of Minnesota, that has the highest poverty rates of any immigrant group in Minnesota (Liuzzi, 2016).

Abbreviated Literature Review

History of Islamic Finance in the United States

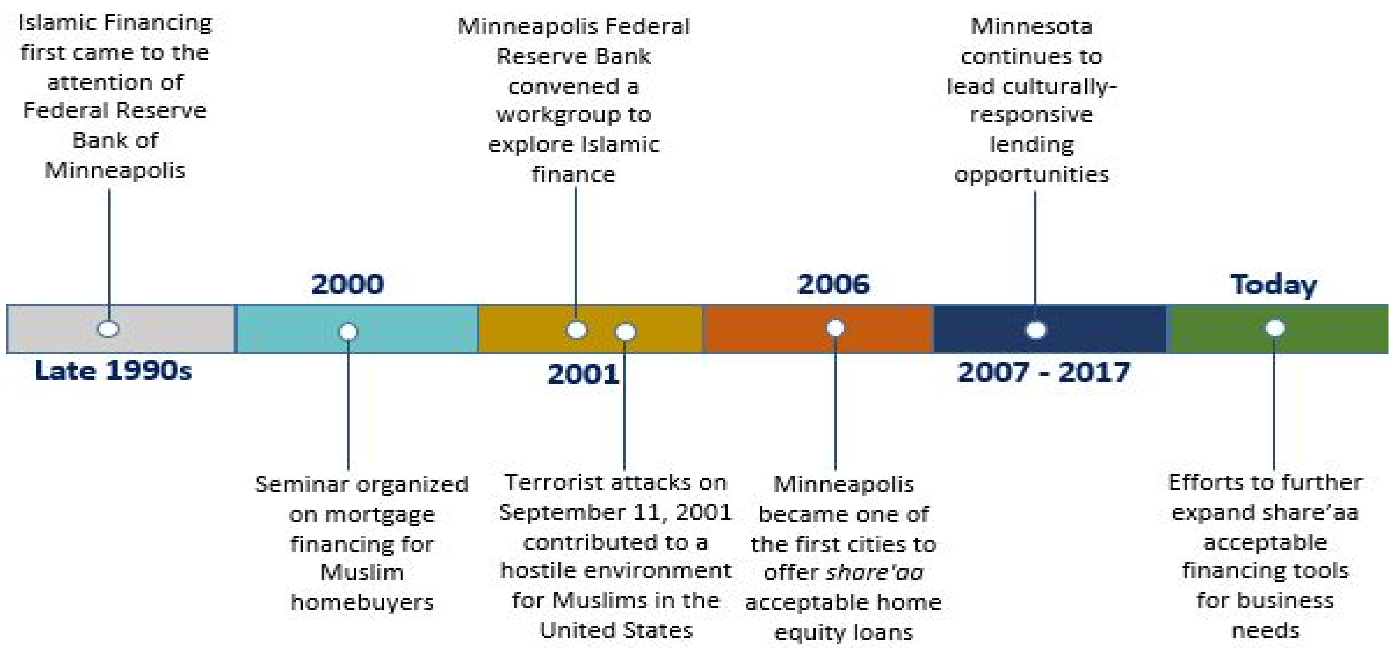
Financial institutions in the United States as a whole did not offer formal Islamic Financing tools until 1997 (Haltom et al., 2014). In 1997, the Office of Controller of Currency (OCC) released a letter of approval for lease-to-own residential financing, and two years later in 1999 there was official approval for Murabaha, or buy-sell agreement, financing practices (Ruteledge, 2005). This signaled a significant shift in Islamic Finance in the United States. However, while in other non-majority Muslim countries, such as the United Kingdom, Islamic Finance has gained traction and is a vibrant part of the national economy, in the United States no such action has been taken. As Renee Haltom, the Editorial Content Manager from the Federal Reserve Bank in Richmond, described:

> "The United States' Muslim population is roughly equal to that of the United Kingdom, a country that houses $19 billion in Islamic financial institution assets, more than 20 banks, and six that provide Sharia-compliant products exclusively. Yet our [the U.S.] market for Islamic financial products is much smaller. There's no single list of participating firms or aggregate estimate of assets, but one can find roughly a dozen firms that routinely offer Islamic banking and investment products to businesses and consumers, though several don't even market such products on their websites." (Haltom 2014: 16).

While there are a myriad of possible explanatory factors that are associated with the United States financial market's inability to provide products that meet the needs of their Muslim clients, most notably it is "politics" and the anti-Muslim Islamophobic and xenophobic rhetoric that emerged post 9/11 and not regulatory issues that dissuade lenders from providing alternative financing products. Although, at large, the United States has not done much to provide culturally-responsive financing opportunities to its Muslim population, the state of Minnesota historically was the first state to develop a portfolio of sharia acceptable products for the Muslim-Minnesota population.

History of Islamic Finance in Minnesota

In Minnesota, state and local agencies noticed a steep increase in requests for alternative mortgage products in the late 1990s (Foster et al., 2002). It was at this time that the Federal Reserve Bank of Minneapolis first started to address the need for Islamic financing. In May of 2000, the U.S. Department of Housing and Urban Development (HUD) partnered with the Federal Reserve Bank of Minneapolis, Family Housing Fund, Islamic Relief and Social Services, Somali Community in Minnesota, and Northside Residents Redevelopment Council, to develop a mortgage seminar geared towards Muslim homebuyers. The Federal Reserve Bank of Minneapolis initiated a work group in 2001 to focus on Islamic finance and alternative lending methods. From 2001 onward, this working group continued to meet and in 2006, **Minneapolis became one of the first cities to offer sharia compliant home loans, which were initiated by the African Development Center (ADC).** Shortly after, the City of Minneapolis' Community and Economic Development Department (CPED) introduced an Alternative Financing Program intended to support Muslim homebuyers (See Figure A. Timeline of Islamic Finance in Minnesota). **While Minnesota continues to lead the country in providing culturally-responsive Islamic financing opportunities, resources and efforts still largely focus on homeownership and there is limited research examining alternative, microfinance small-business business financing opportunities for interest-averse, Muslim entrepreneurs.**



In spite of the small number of financial options for Muslim entrepreneurs, a vibrant group of individuals and organizations have made progress in creating more financial opportunities for Muslims in Minnesota. Therefore, the first step of this research project was to map out the major stakeholder groups invested in this issue. Since the initial call to action in the early 2000s, a group of individuals and organizations formed a broader movement within the Twin Cities. Said stakeholder groups and actors are displayed visually in Appendix B. Stakeholder Map. Key stakeholders include: the Federal Reserve Bank of Minneapolis, Neighborhood Development Center, Metropolitan Consortium of Community Developers (MCCD), Metropolitan Economic Development Agency (MEDA), Local Initiatives Support Coalition (LISC), city governments, interest-averse entrepreneurs, Imams, Islamic Scholars and influential individuals, New American Development Center (NADC), private banks, McKnight Foundation and other major foundations, University Islamic Finance, and Reba Free LLC. All listed stakeholders are involved in local alternative financing, and contribute to the development of successful programs in different ways. In addition to descriptive characteristics of the various stakeholders, Appendix C. Stakeholder Power and Interest Matrix offers a deeper understanding of the roles of various stakeholders in the context of alternative financing in the Twin Cities.

Opportunities for Future Research

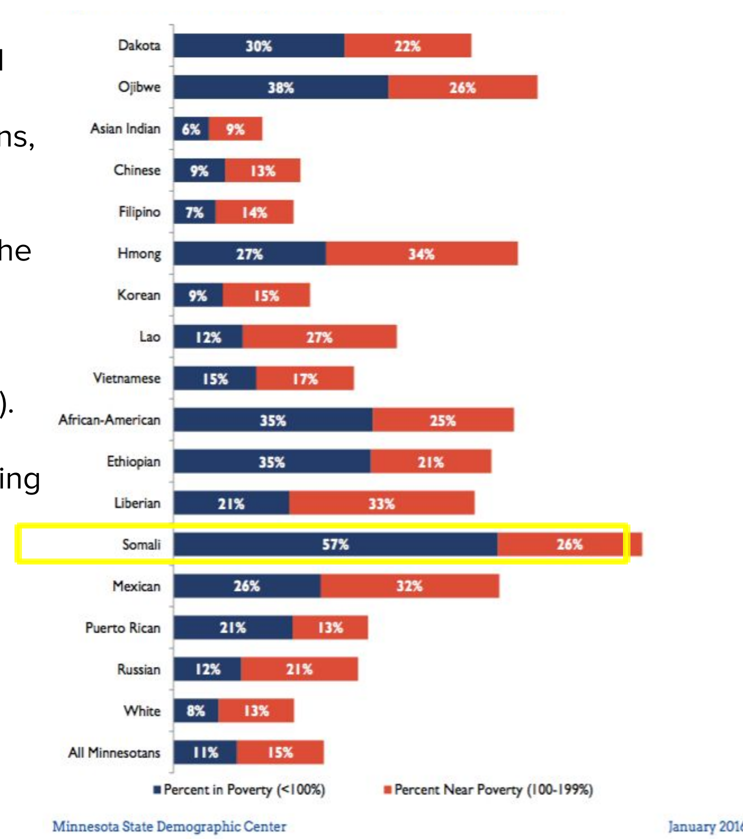
While identifying stakeholders is a key first step, the majority of literature focuses on individually felt barriers such as racism, xenophobia and islamophobia, access to credit or capital, and language barriers. There is a gap in literature that focuses on the barriers that institutions face in successfully providing share'aa acceptable loans. Said differently, literature focuses on the demand for share'aa acceptable lending, but does not address that challenges and cultural blind spots that lending institutions face. While there is a gap in literature on this topic, this report aims to address the institutional barriers that organizations face in effectively supplying interest free financing.

The Stakes in Addressing Institutional Barriers to Equitable Finance

Recent demographic data from the Minnesota Department of Health found (1) nearly 82% of Somali-Minnesotans live near or below the poverty line, compared to 13% statewide ([Minnesota State Demographic Center, 2017]) and (2) Somali households have the lowest median income, at $18,000, followed by African-Americans, at $28,000. Furthermore, 40% of Somalis aged 16-64 are either unemployed or not in the labor force ([2017]). This figure is 2-3 times higher than the unemployment rate for Asians and white Minnesotans. Furthermore, Somali households have the lowest median income, at $18,000, followed by African-Americans, at $28,000 ([2017]).

Limited access to culturally appropriate capital through lending may be a factor contributing to high poverty rates. Consequently, this report focuses on potential barriers and solutions to achieving more equitable and inclusive lending practices which have the power to increase opportunities for the Somali-Minnesotan community.

Figure B. Populations At or Near Poverty in MN (Source: MN Demographic Center)



Methods

This study used in-depth qualitative interviews with semi-structured scripts to gather data on perceived barriers and challenges to implementing share'aa acceptable financing products for interest-averse, Muslim populations in the state of Minnesota. Interviews were conducted between January and March 2018 either by telephone or at a location convenient to the interviewee. Interview questions focused on participants' professional experience in the community development and/or the financial sector and perceived organizational barriers to integrating share'aa acceptable products into their portfolio of products. Participants were asked to provide insights on topics such as organizational structure, workplace training, hiring and decision-making processes, outreach or public engagement programs, and their organization's current product portfolio or about their experience as a Muslim-Somali entrepreneur in opening a business in the Twin Cities.

On average, interviews lasted 45 minutes. The longest interview lasted 80 minutes and the shortest lasted 15 minutes. Please see Appendix A. Interview Guide for the complete list of interview questions. While the interviews were not audio recorded, the primary researcher took exhaustive field notes that were then analyzed to identify major themes and sub-themes.

Inclusion criterion for participants included: (1) over the age of 18 years old (2) community development expert based in the Twin Cities or an Islamic Financial scholar, did not have to be based in the Twin Cities, (3) consenting to participation.

Mural of Somali-Minnesota Transnational Migrants in the Cedar-Riverside neighborhood of Minneapolis, Photo Credit: Clint MacMahon

Results

The principle objective of the study was to explore perceived barriers in organizations that seek to provide or already provide share'aa acceptable loan products to interest-adverse clients in the Twin Cities. While the research team originally sought to explore the external barriers loan providers face externally *through* their service provisioning, we also uncovered preliminary evidence that suggests there are internal barriers advocates for share'aa acceptable products face within their organization and the broader Islamic finance movement in the Twin Cities. Participants identified several perceived barriers, from which eight major themes were identified (Table I). Each major barrier is described in detail below.

Table I. Most Prominent Barriers to Promoting Share'aa Acceptable Products in Twin Cities

	Identified Barrier	% reported[1]	Frequency	Reported by:
1	Negative domestic media coverage of share'aa finance and Islamophobic and xenophobic political rhetoric and action	86%	12	All stakeholder groups
2	Gap in knowledge between potential clients and community resources	42%	6	Smaller NGOs and lending firms, Entrepreneurs
3	Perceived lack of market demand	35%	5	Major lending firms and banks
4	Limited organizational understanding of other alternative lending models outside of the Murabaha	35%	5	Smaller NGOs and lending firms
5	Inadequate financial literacy of clients	29%	4	Major lending firms and banks
6	Different (and at times conflicting!) terminologies	29%	4	Governmental Officials, Islamic Scholars and Entrepreneurs
7	Varying beliefs about the authenticity of the credit	21%	3	Islamic Scholars and Entrepreneurs
8	Lack of workplace diversity	7%	1	City officials

[1] Please note that this column will total to greater to 100%. This is because some participants several key barriers/challenges.

Barrier 1: Negative domestic media coverage of share'aa-compliant finance and Islamophobic and xenophobic political rhetoric and action → negative local popular perception of share'aa finance.

Nearly all of the participants (n=12) cited negative popular perception of Islamic finance as a major, if not the most prominent, barrier to introducing Islamic finance to Minnesota. Many of these same participants cited that the anti-Muslim, anti-immigrant political rhetoric and actions of President Trump and his administration have (re)created a toxic Islamophobic and xenophobic culture that demonizes the word "share'aa." Ultimately, these participants suggested, this renders it extremely difficult, if not impossible, to implement Islamic finance in the United States, even in a state like Minnesota, that has offered alternative financing options for interest-averse homeowners and small business owners since the 1990s.

This barrier can most poignantly be seen in the recent anti-share'aa rallies that occured at the capitol in Saint Paul in June 2017. The protest titled, "The March Against Share'aa," was organized by ACT for America, an anti-Muslim, pro-Trump extremist group (Otárola 2017). It was not an isolated event; it was one of twenty-eight such events planned across the United States last year alone. Many similar events have occured in years before. The organizers of the event claimed that share'aa is a threat to the United States' national security and democracy (2017). The protest drew over a hundred supporters from around the state of Minnesota (2017).

This event is just one example of how the prejudiced misunderstanding of what Islamic finance is and how international and domestic politics perpetuate prejudice and animosity against Islam, ultimately limit alternative financing programs and progressive, culturally-responsive financial policy in Minnesota.

Barrier 2: Gap in knowledge between potential clients and community resources → potential clients not utilizing already available community resources and community resources being unaware of the invisible barriers to their products and services.

Half of the interviewed (n=6) participants stated that they observed a significant "gap in knowledge" between potential clients and community organizations and vice versa, between community organizations and potential clients. While this barrier was often described as the the result of several other confounding barriers, most notably barriers five, six, seven, and eight, it was consistently framed as a general "misunderstanding" between clients and community organizations.

For example, participants described how they witnessed many interest-averse individuals in the Twin Cities (a) not knowing what resources for interest-free financing already exist within the Twin Cities context or (b) being skeptical of the products authenticity (the latter theme will be discussed in depth in a later section of this report.) And conversely, one participant described how within their organization they observed that their fellow staff members did not fully understand the differences between conventional lending and share'aa acceptable financing, which made it difficult for them to articulate the product to potential new clients when they attended informational sessions at their organization. Ultimately, this, participants from lending organizations stated, led to potential interested clients in not utilizing the already established and available resources in the Twin Cities.

Conversely, several interest-averse entrepreneurs discussed the ways in which they experienced barriers that were "invisible" to the organizations providing the loan products. As one interest-averse entrepreneur stated, **"I mean, unless you have the all of the time and the resources and the luxuries the organization's [interest-free lending] program isn't really designed to help someone who needs to make ends meet meet and start a business."** Another interest-averse entrepreneur expanded on this point highlighting, "unless you are able to pay the like uh six hundred dollar out of pocket fee for the course, let alone attend the 10 or maybe it is even 12 week course [three hours a week], and have steady income during that whole time to keep paying rent, buying groceries to feed your kids, pay the bills, you know, it is really challenging. And it takes, you know, like over a year and half to do all of that!"

In order to find solution on this issue, community organizations ought have authentic culturally appropriate training for their staff. Ultimately, these entrepreneurs suggested that the "invisible barriers" limited their access to available community resources.

Barrier 3: Perceived lack of market demand → disincentivizes larger financial institutions and/or organizations from offering different products and/or services.

Five participants cited perceived lack of market demand as a major barrier for implementing alternative financing options in Minnesota. These participants stated that in recent years they personally had not witnessed clients coming into their institution or organization asking for interest-free products. They furthered their point by asserting that, ultimately, without a clear and measurable demand it is impossible to get buy in from larger financial institutions to offer such products as said entities would want to ensure that their investment is profitable for their organization or entity.

However, this point was contested with other participants. Other participants, who work closely with interest-averse clients and/or identify themselves as an interest-averse client raised the concern that large financial entities and lending organizations have not asked, in a meaningful and authentic way, potential clients if they would be interested and/or are in need of interest-free products. As one participant stated, "If they don't ask [us], how are they supposed to know there is a need?"

This noted gap in knowledge between potential clients and community organizations and vice versa, may be (a) preventing potential clients from knowing where to seek interest-free products and (b) inhibiting lending organizations from understanding the issues of access inherent in their program models.

Barrier 4: Limited understanding of other alternative lending models outside of the Murabaha → Only physical capital investment types of projects and programs can be financed.

Five participants, representative of organizations that already offer share'aa acceptable financial products in the Twin Cities and one interest-averse entrepreneur, cited that one of the major challenges their organization is presently facing in offering share'aa acceptable products is the lack of knowledge about other, alternative borrowing models outside of the Murabaha model. The Murabaha model, or buy-sell agreement, allows for the lender to purchase physical capital (i.e. any form of physical product excluding land) and then resell it to the client-entrepreneur with a markup fee. For example, one participant described how if a client-entrepreneur were to want to start a restaurant and need a deep freezer, refrigerator, and utensils, their organization would buy all of the materials for $10,000 and then sell it back to the the client-entrepreneur for $12,000 at a fixed rate over a predetermined period of time. This model entails a transfer of a physical asset, or product, instead of exchange of money.

Currently, all of the organizations in the Twin Cities offering share'aa acceptable small-business loans are exclusively offering share'aa acceptable loan products using the Murabaha model. To date, there are no available share'aa acceptable loan products for small business owners that would allow for other forms of financing for non-physical asset investments, such as human resources and/or land and property purchasing and rental. Ultimately, this lack of understanding of alternative borrowing options significantly limits the types of projects and programs that organizations in the Twin Cities can finance and may deter interested entrepreneurs from seeking their products.

Barrier 5: Inadequate financial literacy of clients → interested clients not qualifying for credit.

Four participants cited that inadequate financial literacy and poor credit scores of potential clients were a major barrier for implementing interest-free products in the Twin Cities. These participants explained that alternative, interest-free lending still requires a pre-qualification which often includes a credit check. These same participants shared that many times, in their experience, potential clients are unaware of these pre-requisites and subsequently do not pre-qualify for an alternative interest-free loan product.

The financial credibility of an individual relies upon that individual's credit score, which is a composite of the individual's payment history, amount owed, length of credit history, types of credit used, and new credit. In the Twin Cities context, the majority, if not all of, these forms of credit are interest-bearing. As such, most interest-averse clients have a credit score of zero because they do not utilize any forms of interest-bearing credit.

Having a credit score of zero is not indicative of poor credit, per se, many interest-averse clients are labelled as “risky” because they do not have a formal credit history in the United States. The usage of credit scores is exclusive to interest-adverse clients as it favors clients who already exist within the interest-charging credit model.

Barrier 6: Different (and at times conflicting!) terminologies → Non-unified, confusing message.

Several participants (n=4) noted the sensitivity and politics surrounding the naming of the topic. Table II. Spectrum of Terminologies illustrates the spectrum of ways in which the topic is talked about ranging from “Share’aa Acceptable Islamic Finance” to “Culturally Responsive Lending.” Repeatedly during the interviews, participants referred to the topic in various ways. While some organizations refer to their product as “share-aa compliant” or “share-aa acceptable,” others suggest that by disassociating the name from the Islamic religious tradition it becomes less politicized and may become more inclusive to a non-Muslim population. However, other participants were concerned that by disassociating the topic from the Islamic faith tradition, it loses its salience and obscures the fact that it is being implemented to ensure equitable finance.

Table II. Spectrum of Terminologies	
Share’aa-Acceptable	**Intended Audience:** Muslim entrepreneurs **Pros:** Makes it easy for Muslim clients to quickly identify whether or not the product is *halal* (lawful) **Cons:** The word “share’aa” has been highly politicized and demonized in the US context; Could come across as exclusively being offered to Muslims
Islamic Financing	**Intended Audience:** Muslim entrepreneurs **Pros:** Makes it easier for Muslim clients to quickly identify whether or not the product is *Halal* (lawful), however there is still room for ambiguity **Cons:** The Trump administration has politicized and demonized the concept and practice of “Islamic Finance” in the US context; Could come across as exclusively being offered to Muslims
Alternative, Non-Interest or *Riba*-Free Financing	**Intended Audience:** Broader public **Pros:** Articulates that the product is interest free and that it is an alternative to conventional, capitalist banking **Cons:** Loquacious, wordy
Asset-Based or Partnership-Based Financing	**Intended Audience:** Broader non-Muslim public **Pros:** Explains the process by which the transaction occurs and how it differs from conventional loans **Cons:** Not clear to Muslim entrepreneur whether or not the product is *halal* (lawful)
Culturally-Responsive Lending	**Intended Audience:** Non-religious or non-political groups seeking the wellbeing of all Minnesotans **Pros:** Very broad and encompassing, a-politicized

	Cons: Not clear to Muslim entrepreneurs if product is or is not *halal* (lawful)

While this report is not suggesting to name the topic one way or another, organizations should consider two important questions when deciding how to name and frame their topic: *by whom* is their product or program being named and *for whom* is it being named. If the organization chooses to name the product as “share’aa-acceptable” or “share’aa-compliant” they should consult an Islamic scholar or imam to ensure that their product is in fact share’aa acceptable or compliant. And conversely, if the organization chooses to name the product as “culturally responsive lending” or “alternative financing,” they should ensure to use clear and inclusive language as so Muslim entrepreneurs know that the organization’s product is *halal*.

Barrier 7: Varying beliefs about the authenticity of the product → Some clients not wanting to utilize the products.

In light of the aforementioned barrier, four participants noted that one of the largest barriers their organizations has faced when trying to implement interest-free financing options in the Twin Cities context is ensuring that imams, or Muslim religious leaders, and Islamic scholars approve the product’s validity or authenticity. If Imams or Islamic scholars do not approve of the product, these participants highlighted, many Muslim-Somali entrepreneurs will not use the products offered.

This barrier was confirmed in a subset of pilot interviews that were conducted with three Muslim-Somali entrepreneurs in the Twin Cities. Unanimously, all three Somali-Muslim entrepreneurs that the number one factor for them when choosing which organization to work with was to ensure that an imam or Islamic scholar had approved of the validity or authenticity of that product. While future research is needed to confirm this trend, our subset of pilot with Muslim-Somali entrepreneurs suggests that support and approval from imams and Islamic scholars is critical for Muslim-Somalis to use the products.

Barrier 8: Lack of workplace diversity → Organizational or institutional “blind spots.”

While it was only mentioned by one participant, one extremely relevant barrier cited was the lack of workplace diversity and specifically the lack of individuals who identify as Muslim and/or of East African ethnic identity. This participant highlighted how in their experience, the lack of staff members in leadership positions who would personally need share’aa acceptable loan products for themselves and/or their families at their organization has rendered their organization blind to the very need of alternative financing for interest-adverse groups in the Twin Cities.

Conclusion

It is projected that the Muslim-Somalis community will be continue to grow throughout Minnesota (Minnesota State Demographic Center, 2017). Considering that 82% of Somalis in Minnesota live in poverty, there is great urgency to address the need for new lending practices. In order to ensure that all Minnesotans have access to equitable finance, it will be imperative for the city and state governments, local non-profit organizations, businesses, and foundations critically explore what (1) policy efforts can be made, (2) programs can be revamped, and (3) initiatives can be created to better support Minnesota's Muslim-Somali, interest adverse residents.

This report provides an analytic summary of the current challenges within the alternative, Islamic finance movement in the Twin Cities. Future research should consider exploring what other non-majority Muslim countries, such as the United Kingdom, are doing to address the issue in their country. Furthermore, future research should consider adding a gendered analysis to ascertain what, if any, differences in experiences exist between male and female Muslim-Somali entrepreneurs. And finally, future research should be privy to examining the direct linkage between access to culturally-responsive credit and overall household economic well-being.

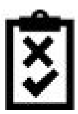
Figure C. Percentage of Somali-Minnesotans Living In Poverty

Organizational Recommendations for NADC

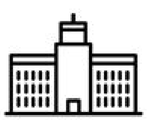
The set of preliminary recommendations are aimed at cultivating a greater collaborative advantage amongst invested stakeholders and increasing New American Development Center's (NADC) effectiveness in the Twin Cities region to ultimately support interest-averse East African Somalis in Minnesota.

Short-Term (within next 12 months)

Create common internal language for NADC to use when discussing the issue of alternative finance models for interest-adverse Muslim-Somali entrepreneurs in the Twin Cities that can be used externally when interacting with vested stakeholders. By creating a common shared language about *riba*-free products a unified message can be presented to both the Muslim-Somali community and the broader Twin Cities community about the topic.



Conduct a comprehensive needs assessment to ascertain the actual need for riba-free small business credit in the Twin Cities. By clearly understanding the need for *riba*-free products in the Twin Cities, vested local and regional stakeholders will be able to better tailor their products to the needs of the community. This should include the (1) actual number of loans needed, (2) estimated size of the loans, (3) the number community members and geographic areas served by the business, and (4) the type of capital the loan would be used for.



Ask the City of Minneapolis and the City of Saint Paul's Small Business Teams to better promote organizations that offer riba-free products for interest-adverse entrepreneurs. By better promoting the organizations in the Twin Cities that do offer share'aa acceptable interest-free financing, one preliminary step towards closing the knowledge gap between interest-averse community members and community resources will be decreased.

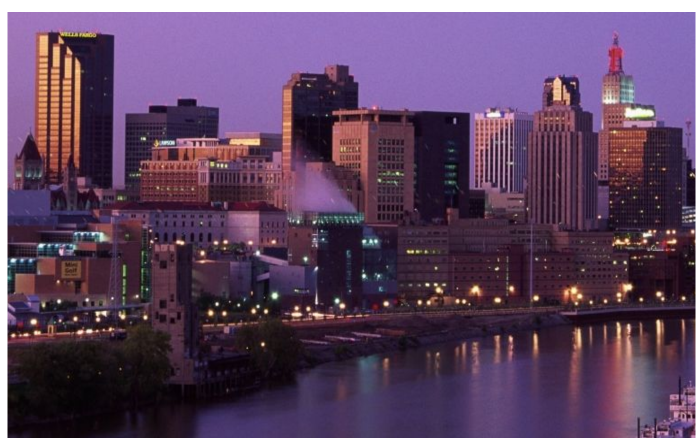


Photo Credit: Skyline of Downtown Minneapolis (Left) City of Minneapolis and Skyline of Downtown Saint

Paul (Right) History Museum of Minnesota

Mid-Term (within next 2 years)

Establish a supportive and collaborative network with other NGO, governmental, and citizen actors in the region and identify their relative strengths, gaps in capacity, and interests as it relates to a supra-interest of alternative financing for interest-averse entrepreneurs. By better understanding the needs and realities of local vested stakeholders, NADC will be in a better position to support the broader regional effort of supporting East African Muslim-Somali entrepreneurs.

Invite Islamic finance banking experts from Devon Bank in Chicago, IL and University Bank in Ann Arbor, MI to share their business practices with interested banks in Minnesota. By learning best business, legal, and operational practices from the leading Islamic financial institutions in the United States, financial institutions in the Twin Cities can learn how they can incorporate riba-free products to their portfolio.

Work with organizations in the Twin Cities that already provide interest-free loans (i.e. African Development Center, Neighborhood Development Center, and the Minnesota Economic Development Association) to uncover what, if any, invisible barriers exist for Somali-Muslim interest-averse entrepreneurs to access their products. Preliminary interviews with interest-averse, Somali-Muslim entrepreneurs suggested that significant barriers exist that prevent them from accessing said organization's products. These barriers include: (1) lack of clarity around the actual product and whether or not it is *halal*, (2) lack of clarity around the process of applying for the product, and (3) the amount of time and financial resources needed to participate in various programs that provide riba-free products.

Long-Term (within next 5 years)

Explore opportunities to engage non-Muslim clients in alternative financing products and models. By broadening the client-base and ultimately market for riba-free products in the Twin Cities, organizations and other financial institutions will be presented with more of an incentive to provide such products.

Redirect media attention to (re)construct a positive narrative of share'aa finance and open a dialogue discussing the opportunities for secular individuals to participate in riba-free finance. By debunking commonly-held misconceptions of *share'aa* finance, greater public awareness can be leveraged for creating a greater demand for the product.

Appendices

A. Interview Questions

For banks and organizations that do provide/claim to provide share'aa-acceptable loan products.

1. Could you tell me a bit about yourself? What led you to a career in financing and/or community and economic development? What drew you to your organization and/or bank?
    a. Can you tell me a bit about your day-to-day work at your organization?
    b. What other experiences have you had working with financing?
2. I read online that your bank and/or org provides share-aa acceptable loans. Could you describe how your bank and/or does this?
    a. When did your org and/or bank start providing these loans?
    b. Why did your org and/or bank start providing these loans?
    c. Who implement?
    d. What specifically does your org and/or bank do?
3. Could you walk me through the process of how an interest-averse business owner would go about getting a share'aa acceptable loan through your org and/or bank?
    a. What documents would they need? Anything else?
    b. How long does this process usually take?
4. What have been some of the successes your bank and/or org has had in providing share'aa acceptable loans?
    a. Individual-level?
    b. Family-level?
    c. Community-level?
5. What have been some of the difficulties, or barriers, your bank and/or org has faced in providing share'aa acceptable loans?
    a. What if any legal barriers have you faced? At the local level? State level? Federal level?
    b. What if any socio-cultural barriers have you faced? Could you describe how you have experienced these barriers?
    c. Why do you think these barriers exist?
    d. What could be done to mitigate these barriers?
6. What if any organizational and/or institutional barriers have you faced in providing share'aa acceptable loans?
    a. Can you give me some specific examples of how these internal barriers play out/present themselves within your organization? How do you know that is a barrier? What makes this feel like a barrier to you personally?
    b. Why do you think these internal barriers exist?
    c. How do you think these barriers have been constructed over time within your organization?
    d. Do you believe that the structure of organization lend to the construction, reconstruction, or deconstruction of these barriers? Why or why not?

7. If you were advising another org and/or bank in implementing a program to provide share'aa acceptable loans what advice or insight would you provide them with?
8. Why do you think other organizations and/or banks are not providing share'aa compliant lending opportunities?
9. Is there anything else you would like to discuss today?

<u>*For banks and organizations that do NOT provide share'aa-acceptable loan products.*</u>

1. Could you tell me a bit about yourself? What led you to a career in financing and/or community and economic development? What drew you to your organization and/or bank?
    a. Can you tell me a bit about your day-to-day work at your organization?
    b. What other experiences have you had working with financing?
2. Who are the primary customers/populations served/stakeholders whom your bank and/or organization serves? Anybody else?
    a. Probe: Can you tell me a bit about the demographics of these groups? Do you work with Somalis? Do you work with any Muslim groups?
    b. Probe: Why does your organization work for or focus on those particular groups?
3. Are there populations whom your organization struggles to serve? What prevents your bank and/or organization from reaching these groups?
    a. Probe: Why do you think your bank and/or organization struggles in connecting with these groups?
    b. Probe: Why do you think it is easier for your bank and/or organization to connect with other groups?
4. Are you aware of Sharia-compliant lending practice, one of the key tenets of Islamic financial law?
    a. If yes, can you describe to me your understanding of it?
    b. If no, would you mind if I give a brief description of one aspect of it?
5. What would you imagine to be some of the difficulties, or barriers, your bank and/or org would face in providing Sharia-compliant loans?
    a. What if any legal barriers would you anticipate? At the local level? State level? Federal level?
    b. What if any socio-cultural barriers? Could you describe how you have experienced these barriers?
    c. Why do you think these barriers exist?
    d. What could be done to mitigate these barriers?
6. What if any organizational and/or institutional barriers would you imagine to face in providing Sharia-compliant loans?
    a. Can you give me some specific examples of how these internal barriers might play out/present themselves within your organization? How do you know that is a barrier? What would make this feel like a barrier to you personally?
    b. Why do you think these internal barriers exist?

    c. How do you think these potential barriers have been constructed over time within your organization?
    d. Do you believe that the structure of organization lend to the construction, reconstruction, or deconstruction of these barriers? Why or why not?
7. Do you think your bank and/or org would be willing to consider providing Sharia-compliant loans? Why or why not?
8. Would it be helpful/advantageous to you to have more information about how to implement Sharia-compliant loans?
    a. What sorts of particular information would be most useful?
    b. Why would this be useful?
9. Is there anything else you would like to discuss today?

For Somali-Muslim, interest-averse business owners.

1. Could you tell me a bit about yourself?
    a. Have you always wanted to be an entrepreneur?
    b. How did you come to know Asad at NADC?
2. Could you tell me a bit about your business?
    a. What services and/or products does your business offer?
    b. Where is it located?
    c. What have been some of your business's major successes?
3. Could you tell me a bit about the process of starting your own business?
    a. What led you to open your business?
    b. When was it founded?
    c. Was there anything unique about the startup process?
4. Could you describe to me how you financed your business? Did you use savings? Family and/or friend funds? Private funds?
5. Did you use a loan to finance your business?
    a. If yes, could you tell me about what that process of applying and obtaining a loan was like?
        i. Where did you obtain that loan?
        ii. Why did you choose to work with this organization? Why did you not use another organization?
        iii. How did you find out about the organization?
        iv. Were there any challenges or difficulties you experienced when applying and obtaining that loan?
            1. If yes, can you describe them to me? What made it challenging or difficult?
            2. If no, what made it easy?
    b. If no, why did you not seek any form of loan?
        i. Were you interested in seeking a loan?
            1. If yes, what were the challenges or difficulties you experienced when attempting to apply for the loan?
6. Could you describe to me your relationship with formal banking institutions here in Minneapolis. Do you use a bank? If so, which one? Why do you use this bank?

Were there any specific programs and/or services that the bank and/or org provided? Did you consider using other banks? Why did you not use them?
    a. What is your experience like using this bank?
    b. Do they provide adequate services and products to you? Why or why not?
    c. What, if anything, more would you like your bank to provide? Why would you like this added?
7. If banks and/or other organizations in the Twin Cities offered share'aa acceptable loans would you utilize this product? Why or why not?
    a. Do you think any of your friends and/or family members who are small-business owners and/or entrepreneurs would utilize this service? Why or why not?
8. Is there anything else you would like to discuss with me today?
9. Do you have any other questions for me?

B. Stakeholder Engagement Map

Name of Stakeholder	Sector	Priorities	Strengths and Assets	Gaps in Capacity	Cited Barriers and Challenges
Federal Reserve Bank of Minnesota	Quazi-Governmental	-Create economic growth and promote community development in Minnesota -Supervision and regulation of monetary movement between banks, saving and credit unions	-Financial, political, and social capital in region and across nation -Access to local and regional economic data sets -Already exploring Share'aa acceptable affordable housing options for interest-averse clients in Minnesota	-Far removed from the community organizations and the entrepreneurs working "on the ground" -Extremely busy and heavy workload, meaning that other priorities often take precedent	-Lack of demand or unclear size of demand to reach scalable size -Clients not having financial literacy and/or characteristics to be pre-approved for loan
Neighborhood Development Center	Non-Governmental	-Promote community development through job creation and entrepreneurism in the state of Minnesota	-Neighborhood enterprise development model that includes training, financing, and long-term support -At present, have some of the key documents needed to file interest-free loans	-Organizational blind spot of being able to see the invisible barriers to access their products/services -Currently limited to the buy-sell model for capital investment for interest-free loans -Internal staff members not understanding the significant differences between Share'aa acceptable	-Their interest rates are not competitive for clients -Limited to buy-sell arrangements

				financing options and convention loans	
Metropolitan Consortium of Community Developers (MCCD)	Non-Governmental, Member-Based	-Expand the wealth and resources of neighborhoods through housing and economic development initiatives	-Diverse membership and partnerships and strategic alliances throughout the state of Minnesota -Variety of different loan packages for entrepreneurs and businesses at all stages -Mara O'Neil, former COO of NDC, possesses a wealth of knowledge and experience on the topic	-Unclear if they offer interest-free loans to interest-averse entrepreneurs	-The additional, and at times, cumbersome paperwork that lenders must complete in order to provide alternative loans
Metropolitan Economic Development Association (MEDA)	CDFI	-Provide one-on-one business consulting, access to capital, and connections to market opportunities for minority entrepreneurs in Minnesota to ultimately create quality jobs with livable wages and health care.	-Longstanding work in Minnesota and good reputation amongst funders -Financial, political, and social capital in region	-At present, providing interest-free loans is not a key priority for the organization as the organization appears to be unaware of the demand	-Lack of demand or unclear size of demand to reach scalable size

Local Initiatives Support Coalition (LISC)	CDFI	-Invest capital and support collaboration to produce affordable homes and vibrant commercial and public spaces, and to promote economic development, arts & culture, and health in communities.	-Already exploring Share'aa acceptable affordable housing options for interest-averse clients in Minnesota -Strong connections and network with predominant actors in Share'aa acceptable housing space	-Confined mainly to the affordable housing space and doesn't, at present, have focus on wealth development via entrepreneurism and job creation	-Lack of demand or unclear size of demand to reach scalable size -Current scope of work focuses almost exclusively on home-ownership
City Government, Community and Economic Development	Governmental	-Increase the number of jobs in City, and increase access to jobs and opportunity for residents -Grow City's tax base to maintain and expand City services, amenities and infrastructure -Lower unemployment among the City's diverse populations with disproportionately high unemployment rate	-Financial, political, and social capital across city and region -Comprehensive business resource center	-Currently, does not specifically highlight/target Share'aa acceptable products	-Lack of awareness and education both for banks and other borrowing institutions and client-customers -Lack of workplace diversity that would bring the topic to the forefront

Interest-averse entrepreneurs	Individuals	-Build wealth for their families and in their communities -Create jobs in their communities	-Innovative ideas for businesses in their community -Passion, motivation, and commitment to generate wealth in their community	-Low social, economic, and political capital -Lack of knowledge or information about what resources exist in the Twin Cities	-Invisible barriers to obtain loans from borrowing institutions (i.e. time constraints, hidden fees, etc.) -Unclear processes to apply for loans -Secondary interest paid on the loans is not *halal* -Banks and borrowing institutions are not consulting imams and/or Islamic scholars to ensure products are actually Share'aa acceptable
Imams and Other Religious and Cultural Leaders, such as Islamic Scholars	Individuals	-Ensure that all products are *halal* (lawful)	-Specific technical knowledge about what is and is not Share'aa acceptable -Strong, trusting relationships with Muslim population	-Lack of social and economic capital to bring program offering interest-free financing to scale	-Exclusion of their voices from important decision making processes

New American Development Center (NADC)	Non-Governmental, Member-Based	-Lower the poverty rate of refugee, immigrants and low-income skilled workers in the Somali community through authentic, culturally appropriate and sustainable wealth building programs that include technical assistance, business development, entrepreneurship training and youth employment.	-Strong, trusting relationships with Somali population -Ability to "translate" across cultures and between organizations and institutions	-Need to insert themselves into the vibrant stakeholder web and clearly articulate their priorities and agenda in a succinct way to said stakeholders and the broader public	-Lack of available products for interest-averse clients
Banks	Private	-Support small businesses in reaching their goals -Maximize their bank's profits	-Financial capital	-Unaware of what potential models could look like in within their traditional, Western banking model	-Client-customers are not pre-qualifying for products -Too "risky" of a venture to get into with low or no-credit bearing clients
McKnight Foundation and Other Major Foundations	Private, Foundations	-Improving the quality of life for present and future generations -Provides much of the grant money to ADC, NDC, and other community organizations	-Financial and social capital	-Must meet the priorities and interests of their board, which may or may not include alternative finance models, such as Islamic finance	-Lack of demand or unclear size of demand to reach scalable size

University Islamic Finance	Private, faith-based	-Offer faith-based financing options to meet the religious and cultural needs of Muslims living in the United States	-Specific cultural and religious knowledge about what is and is not Share'aa acceptable -Technical knowledge about state and federal rules and regulations for Islamic financial products, including Share'aa acceptable small business loans	-Relatively new to the Twin Cities context and just beginning to emerge as a nascent key stakeholder	
Reba Free LLC	Private, Individual	-Support NGOs, banks, and other institutions throughout Minnesota in adopting Share'aa acceptable models for products	-Specific cultural and religious knowledge about what is and is not Share'aa acceptable -Technical knowledge about how to implement Share'aa acceptable products in the Minnesota context	-Somewhat inaccessible	-Social, cultural, and, most recently, political barriers of Islam and anything associated with "Share'aa" as being demonized and/or politicized in the United States

C. Stakeholder Power/Interest Matrix

Power (ability to affect outcomes)	Interest: Low	Interest: High
High	-Federal Reserve Bank of Minnesota -City Government, Community and Economic Development -Banks -McKnight Foundation and Other Major Foundations	-Neighborhood Development Center (NDC) -Metropolitan Economic Development Association (MEDA) -Imams and Other Religious and Cultural Leaders, such as Islamic Scholars -University Islamic Finance -Reba Free LLC
Low	-Metropolitan Consortium of Community Developers (MCCD) -Local Initiatives Support Coalition (LISC)	-Interest-averse entrepreneurs -New American Development Center
	Low	**High**

Interest (to what degree affected by outcomes)

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